

**SOUTH O'BRIEN
COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2008**

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2008
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

LIST OF PRINCIPAL OFFICIALS

Board of Education (Before September 2007 Election)

		Term Expires
John Friedrichsen	President	2008
Phil Syndergaard	Vice President	2008
Brian Massmann	Board Member	2008
Bonnie Wallinga	Board Member	2007
Lori Burmakow	Board Member	2009
Sue McCauley	Board Member	2007
Brian Schimmer	Board Member	2009

Board of Education (After September 2007 Election)

John Friedrichsen	President	2011
Sue McCauley	Vice President	2011
Lori Burmakow	Board Member	2009
Todd Faust	Board Member	2011
Brian Massmann	Board Member	2011
Kevin Nelson	Board Member	2009
Brian Schimmer	Board Member	2009

School Officials

Richard Nervig	Superintendent
Sharla Rupert	Board Secretary



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Le Mars, IA 51031
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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
South O'Brien Community School District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the South O'Brien Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South O'Brien Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of South O'Brien Community School District as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2009 on our consideration of the South O'Brien Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South O'Brien Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. The other supplementary information, included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Williams + Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Le Mars, Iowa
January 12, 2009

Management Discussion and Analysis

The South O'Brien Community District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the Fiscal Year ended June 30, 2008. Readers are encouraged to consider this information in conjunction with the District's financial statements, which follow this section.

2008 FINANCIAL HIGHLIGHTS

General fund revenues increased slightly from \$6,096,357 in fiscal 2007 to \$6,143,778 in fiscal 2008, while General Fund expenditures increased from \$5,977,318 in fiscal year 2007 to \$6,117,759 in fiscal 2008. The District's General fund balance increased from \$1,255,600 in fiscal 2007 to \$1,281,619 in fiscal 2008 which is a 2% increase.

There was only a slight increase in General fund revenues. The increase in expenditures is partly because of the 4% negotiated increase in salaries.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the District's financial activities.
- The District-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the district-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with comparison of District's budget for the year.

Other Supplementary Information provides detailed information about the non-major special revenue Funds, Capital Project Funds, and Debt Service Fund.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
South O'Brien Community School District
Annual Financial Report

Figure A-1
GASB 34 South O'Brien Community School District Annual Financial Report

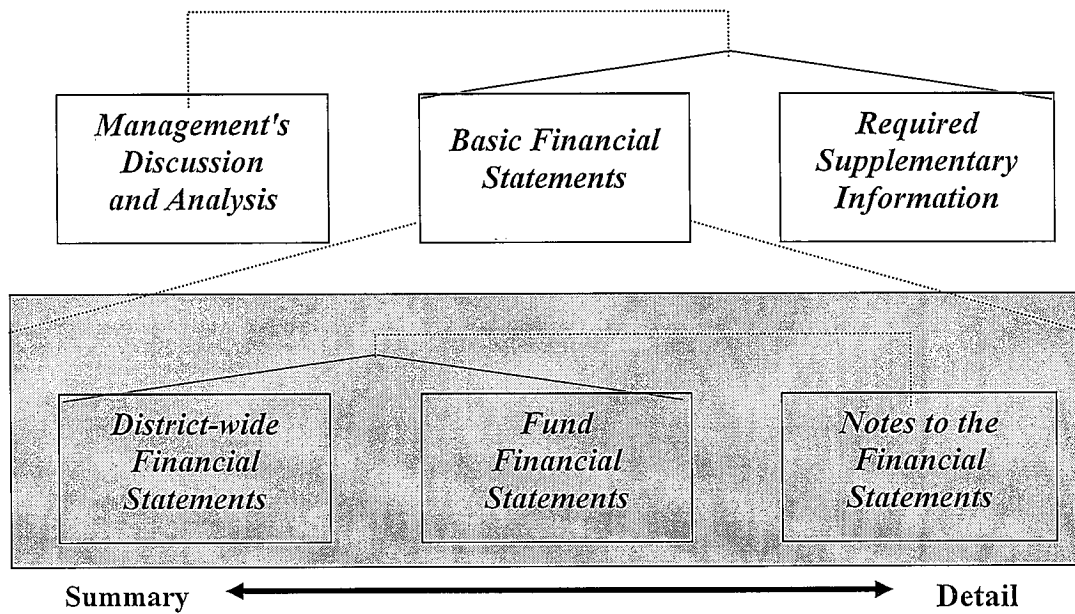


Figure A-2 below summarizes the major feature of the District's financial statements, including the position of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITES

Government-wide financial statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the district's assets and liabilities) are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- Governmental activities: most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- Business-type activities: the District charges fees to help it cover the costs of certain services it provides. The District's food service program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether these are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds, and Fiduciary funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds, one type of proprietary, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the school nutrition fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and change in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 and 2007

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total %
	2007	2008	2007	2008	2007	2008	Change
Current and other assets	\$5,528,082	\$5,873,361	\$37,585	\$47,774	\$5,565,667	\$5,921,135	6.4%
Capital Assets	4,624,459	4,600,154	75,372	65,993	4,699,831	4,666,147	-.7%
Total Assets	10,152,541	10,473,515	112,957	113,767	10,265,498	10,587,282	3.13%
Current Liabilities	3,317,664	3,431,157	12,955	14,263	3,330,619	3,445,420	3.4%
Long-Term Liabilities	2,690,889	2,598,299	-	-	2,690,889	2,598,299	-3.4%
Total Liabilities	6,008,553	6,029,456	12,955	14,263	6,021,508	6,043,719	.4%
Net Assets							
Invested in capital asset							
Net of related debt	2,144,459	2,522,614	75,372	65,993	2,219,831	2,588,607	16.6%
Restricted	301,422	196,818	-	-	301,422	196,818	-34.7%
Unrestricted	1,698,107	1,724,627	24,630	33,511	1,722,737	1,758,138	2.1%
Total Net Assets	\$4,143,988	\$4,444,059	\$100,002	\$99,504	\$4,243,990	\$4,543,563	7.1%

The District's combined net assets increased by 7.1%, or approximately \$300,000, over the prior year. The largest portion of the District's net assets is invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$105,000 or 34.7% from the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements increased approximately \$35,000 or 2.1%.

Figure A-4 shows the change in net assets for the year ended June 30, 2008 and 2007.

Figure A-4

Changes in Net Assets from Operations

	Governmental Activities		Business-type Activities		Total District		Total %
	2007	2008	2007	2008	2007	2008	Change
Revenue:							
Program Revenue:							
Charges for Services	\$ 332,711	\$ 349,676	\$ 123,174	\$125,519	\$ 455,885	\$ 475,195	4.2%
Operating Grants and Contributions	1,047,307	986,360	126,418	124,088	1,173,725	1,110,448	-5.4%
General Revenues:							
Property Tax	2,630,718	2,695,938			2,630,718	2,695,938	2.5%
Instructional Support Surtax	240,607	241,529			240,607	241,529	.4%
Local Option Sales Tax	443,957	377,426			443,957	377,426	-15.0%
Unrestricted State Grants	2,415,642	2,538,044			2,415,642	2,538,044	5.1%
Unrestricted Investment Earnings	139,940	86,850	897	1075	140,837	87,925	-37.6%
Other	15,550	16,588	138	90	15,688	16,678	6.3%
TOTAL REVENUES	7,266,432	7,292,411	250,627	250,772	7,517,059	7,543,183	.3%
Program Expenses:							
Instruction	4,204,540	4,410,623			4,204,540	4,410,623	4.9%
Support Services	1,978,949	1,999,410			1,978,949	1,999,410	1.0%
Non-instructions Programs	-	-	246,391	251,270	246,391	251,270	2.0%
Other Expenses	429,667	582,307			429,667	582,307	35.5%
TOTAL EXPENSES	6,613,156	6,992,340	246,391	251,270	6,859,547	7,243,610	5.6%
Change in Net Assets	\$ 653,276	\$ 300,071	\$ 4,236	\$ (498)	\$ 657,512	\$ 299,573	-54.4%

Property tax, local option sales, instruction support surtax, and unrestricted state grants account for nearly 80% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for over 88% of the total expenses.

Governmental Activities

Figure A-5 presents the cost of four major district activities: instruction, support services, non-instructional and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial impact placed on the taxpayers by each function.

Figure A-5

Net Cost of Governmental Activities

Activities	Total Cost of Services		Percent	Net Cost of Services		Percent
	2007	2008	Change	2007	2008	Change
Instruction	\$ 4,204,540	\$ 4,410,623	4.9%	\$3,141,007	\$3,400,681	8.3%
Support Services	1,978,949	1,999,410	1.0%	1,907,400	1,925,717	1.0%
Other	429,667	582,307	35.5%	184,731	329,906	78.6%
TOTAL	\$ 6,613,156	\$ 6,992,340	5.7%	\$5,233,138	\$5,656,304	8.1%

- The cost financed by users of the District's programs was \$349,676.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$986,360.
- The net cost of governmental activities was financed with \$3,314,893 in property and other taxes and \$2,538,044 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activity (school food and nutrition services) were \$250,772 and expenses were \$251,270. (Refer to Figure A-4) The District's business type activities include the School Nutrition Fund. Revenues of this activity were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the South O'Brien Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,061,661 slightly below last year's ending fund balances of \$2,118,624.

Governmental Fund Highlights

- The General Fund balance increased slightly from \$1,255,600 in fiscal 2007 to \$1,281,619 in fiscal 2008.
- The Capital Projects LOST Fund balance decreased from \$561,602 at June 30, 2007 to \$508,593 on June 30, 2008.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased slightly from \$100,002 at June 30, 2007 to \$99,504 at June 30, 2008.

General Fund Budgeting Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutory prescribed procedure. The District's budget is prepared on the accrual basis. During the year expenditures exceeded the amount budgeted in the other expenditures function. Detail can be found in the supplementary information section of this report as required.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008, the District had invested \$9,830,068 in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see figure A-6). Total depreciation expense for the year equaled \$283,592. More detailed information about capital assets can be found in Note 5 to the financial statements.

Figure A-6
Capital Assets

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2007	2008	2007	2008	2007	2008	
Land	\$ 51,351	\$ 51,351	-	-	\$ 51,351	\$ 51,351	-
Buildings	6,603,014	6,654,384	-	-	6,603,014	6,654,384	.8%
Improvements other than buildings	120,585	160,037	-	-	120,585	160,037	32.7%
Furniture and Equipment	2,659,086	2,788,391	\$179,155	\$175,905	2,838,241	2,964,296	4.4%
Total Assets	\$9,434,036	\$9,654,163	\$179,155	\$175,905	\$9,613,191	\$ 9,830,068	2.3%

Long-Term Debt

At year end, the District had \$910,000 in general obligation bonds outstanding, \$1,225,000 in LOSST revenue bonds outstanding, \$93,667 in early retirement obligations, \$11,449 in special assessment notes payable, and \$12,183 in compensated absences. Additional information about the Districts long-term debt is presented in Note 6 to the financial statements.

Economic Factors Bearing on District's Future

At the time these financial statements were prepared, the District was aware of the following existing circumstances that could affect its financial health in the future.

- Enrollment declined and budget guarantee reduction will be reflected in the fiscal 2010 budget.
- There will be no new money for fiscal 2009. The expenditures for fiscal 2009 are projected to increase by \$200,000. This scenario will require critical review of utilization of staff for fiscal 2010.
- Reducing agricultural land valuation during fiscal 2004 negatively impacted our PPEL levy by approximately \$55,000 a year. Over a ten year period, PPEL receipts will be less by at least \$550,000.
- During fiscal 2005, 2006, 2007 and 2008 receipts in the General Fund were greater than expenditures. This is the result of closely monitoring staffing and expenses district wide.

Contacting the District's Financial Manager

This financial report is designed to provide the District's patrons, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the revenue it receives. If you have questions about this report or need additional financial information, contact Richard Nervig, Supt. or Julie Sampson, School Business Manager, South O'Brien Community School District, 206 S. Rutledge St., Paullina, Iowa.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business Type Activity	Total
ASSETS			
Cash and Pooled Investments	\$ 2,197,511	\$ 38,372	\$ 2,235,883
Receivables:			
Property Tax	49,511	-	49,511
Succeeding Year Property Tax	2,734,773	-	2,734,773
Accounts	13,247	303	13,550
Due from Other Governments	167,285	-	167,285
Restricted Assets:			
ISCAP Investments	347,111	-	347,111
ISCAP Interest Receivable	6,090	-	6,090
Bankers Trust Sinking Fund	119,753	-	119,753
Bankers Trust Reserve Fund	174,000	-	174,000
Inventories	6,620	9,099	15,719
Bond Issue Costs	6,109	-	6,109
Land	51,351	-	51,351
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,600,154	65,993	4,666,147
Total Assets	<u>10,473,515</u>	<u>113,767</u>	<u>10,587,282</u>
LIABILITIES			
Accounts Payable	119,308	-	119,308
Salaries and Benefits Payable	537,679	10,997	548,676
Accrued Interest Payable	26,415	-	26,415
Unearned Revenue	5,492	3,266	8,758
Deferred Revenue - Succeeding Year Taxes	2,734,773	-	2,734,773
ISCAP Unamortized Premium	1,853	-	1,853
ISCAP Interest Payable	5,637	-	5,637
Noncurrent Liabilities:			
Due Within One Year:			
Compensated Absences	12,183	-	12,183
ISCAP Warrants Payable	346,000	-	346,000
Notes Payable	11,449	-	11,449
Bonds Payable	185,000	-	185,000
GO Capital Loan Notes Payable	170,000	-	170,000
Early Retirement Payable	12,000	-	12,000
Due in More Than One Year:			
Bonds Payable	1,040,000	-	1,040,000
GO Capital Loan Notes Payable	740,000	-	740,000
Early Retirement Payable	81,667	-	81,667
Total Liabilities	<u>6,029,456</u>	<u>14,263</u>	<u>6,043,719</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,522,614	65,993	2,588,607
Restricted for:			
Endowments:			
Expendable	11,405	-	11,405
Nonexpendable	2,545	-	2,545
Physical Plant and Equipment Levy	131,012	-	131,012
Other Special Revenue Purposes	51,856	-	51,856
Unrestricted	1,724,627	33,511	1,758,138
Total Net Assets	<u>\$ 4,444,059</u>	<u>\$ 99,504</u>	<u>\$ 4,543,563</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants Contributions	Capital Grants Contributions
Governmental Activities:				
Instruction:				
Regular Instruction	\$ 2,889,554	\$ 92,680	\$ 419,686	\$ -
Special Instruction	1,009,938	57,442	231,686	-
Other Instruction	511,131	193,693	14,755	-
Support Services:				
Student Services	156,887	-	7,387	-
Instructional Staff Services	254,427	-	7,200	-
Administration Services	689,030	-	-	-
Operation and Maintenance	539,794	5,645	-	-
Transportation Services	359,272	216	53,245	-
Other Expenditures:				
Facilities Acquisition and Construction Services	242,644	-	-	-
Long-term Debt Interest	87,262	-	-	-
AEA Flowthrough	252,401	-	252,401	-
Total governmental activities	<u>6,992,340</u>	<u>349,676</u>	<u>986,360</u>	<u>-</u>
Business Type Activity:				
Non-instructional Programs				
Food Service Operations	<u>251,270</u>	<u>125,519</u>	<u>124,088</u>	<u>-</u>
Total	<u>\$ 7,243,610</u>	<u>\$ 475,195</u>	<u>\$ 1,110,448</u>	<u>\$ -</u>
General Revenues:				
Property Tax Levied For:				
General Purposes				
Capital Outlay				
Instructional Support Surtax				
Local Option Sales Tax				
Unrestricted State Grants				
Unrestricted Investment Earnings				
Other				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activity	Total
\$ (2,377,188)		\$ (2,377,188)
(720,810)		(720,810)
(302,683)		(302,683)
(149,500)		(149,500)
(247,227)		(247,227)
(689,030)		(689,030)
(534,149)		(534,149)
(305,811)		(305,811)
(242,644)		(242,644)
(87,262)		(87,262)
-		-
<u>(5,656,304)</u>		<u>(5,656,304)</u>
	\$ (1,663)	(1,663)
<u>(5,656,304)</u>	<u>(1,663)</u>	<u>(5,657,967)</u>
2,411,817	-	2,411,817
284,121	-	284,121
241,529	-	241,529
377,426	-	377,426
2,538,044	-	2,538,044
86,850	1,075	87,925
16,588	90	16,678
<u>5,956,375</u>	<u>1,165</u>	<u>5,957,540</u>
300,071	(498)	299,573
4,143,988	100,002	4,243,990
<u>\$ 4,444,059</u>	<u>\$ 99,504</u>	<u>\$ 4,543,563</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	Capital Project LOST	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Pooled Investments	\$ 1,752,031	\$ 163,925	\$ 281,555	\$ 2,197,511
Receivables:				
Property Tax	41,567	-	7,944	49,511
Succeeding Year Property Tax	2,313,470	-	421,303	2,734,773
Accounts	12,945	-	302	13,247
Due from Other Governments	93,896	73,389	-	167,285
Restricted Assets:				
ISCAP Investments	347,111	-	-	347,111
ISCAP Interest Receivable	6,090	-	-	6,090
Bankers Trust Sinking Fund	-	119,753	-	119,753
Bankers Trust Reserve Fund	-	174,000	-	174,000
Inventories	6,620	-	-	6,620
Total Assets	<u>4,573,730</u>	<u>531,067</u>	<u>711,104</u>	<u>5,815,901</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	80,711	22,474	16,123	119,308
Salaries and Benefits Payable	537,679	-	-	537,679
Early Retirement Payable	-	-	2,002	2,002
Unearned Revenue	6,761	-	227	6,988
Deferred Revenue - Succeeding				
Year Taxes	2,313,470	-	421,303	2,734,773
ISCAP Unamortized Premium	1,853	-	-	1,853
ISCAP Interest Payable	5,637	-	-	5,637
ISCAP Warrants Payable	346,000	-	-	346,000
Total Liabilities	<u>3,292,111</u>	<u>22,474</u>	<u>439,655</u>	<u>3,754,240</u>
Fund Balances:				
Reserved for:				
Inventory	6,620	-	-	6,620
Endowments	-	-	13,950	13,950
Unreserved for:				
General Fund	1,274,999	-	-	1,274,999
Special Revenue Fund	-	-	257,499	257,499
Capital Project Fund	-	508,593	-	508,593
Total Fund Balances	<u>1,281,619</u>	<u>508,593</u>	<u>271,449</u>	<u>2,061,661</u>
Total Liabilities and Equity	<u>\$ 4,573,730</u>	<u>\$ 531,067</u>	<u>\$ 711,104</u>	<u>\$ 5,815,901</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 16)	\$ 2,061,661
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,651,505
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(26,415)
Bond issue costs are reported in the governmental activities but are not reported in the governmental funds as they do not provide current economic resources.	6,109
Unearned revenues from the balance sheet that provide current financial resources for governmental activities.	1,496
Long-term liabilities, including notes payable, bonds payable, early retirement payable, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,250,297)</u>
Total Net Assets - Governmental Activities (page 13)	<u><u>\$ 4,444,059</u></u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General	Capital Project LOST	Other Governmental Funds	Total Governmental Funds
REVENUE:				
Local Sources:				
Local Tax	\$ 2,404,979	\$ 377,426	\$ 530,632	\$ 3,313,037
Tuition	134,946	-	-	134,946
Other	84,939	16,185	226,414	327,538
State Sources	3,230,937	-	210	3,231,147
Federal Sources	287,977	-	-	287,977
Total Revenue	6,143,778	393,611	757,256	7,294,645
EXPENDITURES:				
Current:				
Instruction:				
Regular Instruction	2,700,446	-	15,300	2,715,746
Special Instruction	1,037,100	-	-	1,037,100
Other Instruction	350,825	-	185,300	536,125
Support Services:				
Student Services	156,887	-	-	156,887
Instructional Staff Services	245,822	-	7,190	253,012
Administration Services	616,857	-	68,214	685,071
Operation and Maintenance	408,569	23,971	70,899	503,439
Transportation Services	348,852	-	77,324	426,176
Other Expenditures:				
Facilities Acquisition and Construction Services	-	190,327	148,814	339,141
Long-term Debt:				
Principal	-	-	356,454	356,454
Interest and Fiscal Charges	-	-	90,056	90,056
AEA Flowthrough	252,401	-	-	252,401
Total Expenditures	6,117,759	214,298	1,019,551	7,351,608
Excess (Deficiency) of Revenues Over Expenditures	26,019	179,313	(262,295)	(56,963)
Other Financing Sources (Uses):				
Transfers In	-	-	446,510	446,510
Transfers Out	-	(232,322)	(214,188)	(446,510)
Total Other Financing Sources (Uses)	-	(232,322)	232,322	-
Net Change in Fund Balances	26,019	(53,009)	(29,973)	(56,963)
Fund Balances - Beginning of Year	1,255,600	561,602	301,422	2,118,624
Fund Balances - End of Year	\$ 1,281,619	\$ 508,593	\$ 271,449	\$ 2,061,661

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Amounts reported for governmental activities in the statement of activities are different

Net change in fund balances - total governmental funds (page 18)	\$	(56,963)
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Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 328,090		
Depreciation expense	<u>(277,057)</u>		51,033

Governmental funds report only the proceeds from the sale of capital assets as revenue whereas the statement of activities reports the gain or loss on the sale or disposal of fixed assets. This is the effect on the change in net assets on the statement of activities.	(23,987)
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Accrued interest expense that does not require current financial resources.	4,007
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues.	(66)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated Absences	140		
Early retirement	<u>(29,334)</u>		(29,194)

The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities.	(1,213)
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The repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The principal paid on long-term debt during the current year was as follows:

Notes Payable	11,454		
Bonds Payable	180,000		
Capital Loan Notes Payable	<u>165,000</u>		356,454

Change in net assets of governmental activities (page 15)	\$	<u>300,071</u>
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See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008**

	Business Type Activity School Nutrition Fund
ASSETS	
Current Assets:	
Cash and Pooled Investments	\$ 38,372
Accounts Receivable	303
Inventories	9,099
Total Current Assets	<u>47,774</u>
Noncurrent Assets:	
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	<u>65,993</u>
Total Noncurrent Assets	<u>65,993</u>
Total Assets	<u>113,767</u>
LIABILITIES	
Current Liabilities:	
Salaries and Benefits Payable	10,997
Unearned Revenue	3,266
Total Current Liabilities	<u>14,263</u>
Total Liabilities	<u>14,263</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	65,993
Unrestricted	33,511
Total Net Assets	<u>\$ 99,504</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Business Type Activity School Nutrition Fund
Operating Revenues:	
Charges for services	\$ 125,519
Miscellaneous	90
Total Operating Revenue	<u>125,609</u>
Operating Expenditures:	
Non-Instructional Programs:	
Food Service Operations:	
Salaries	62,077
Benefits	29,161
Purchased Services	2,780
Supplies	147,873
Depreciation	6,535
Loss on Disposal of Capital Assets	2,844
Total Operating Expenses	<u>251,270</u>
Operating (Loss)	<u>(125,661)</u>
Non-Operating Revenues :	
Interest Income	1,075
State Lunch Reimbursements	3,488
National School Lunch Program	91,651
Other	151
Federal Food Commodities Received	28,798
Total Non-Operating Revenues	<u>125,163</u>
Change in net assets	(498)
Net Assets - beginning	<u>100,002</u>
Net Assets - ending	<u><u>\$ 99,504</u></u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

	Business Type Activity School Nutrition Fund
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 125,950
Cash received from miscellaneous operating activities	90
Cash paid to employees for services	(61,200)
Cash paid to suppliers for goods or services	(150,339)
Total cash (used) by operating activities	<u>(85,499)</u>
Cash flows from noncapital financing activities:	
State grants received	3,488
Federal grants received	102,286
Total cash provided by noncapital financing activities	<u>105,774</u>
Cash flows from investing activities:	
Interest on investments	<u>1,075</u>
Net increase in cash and cash equivalents	21,350
Cash and cash equivalents - beginning of year	<u>17,022</u>
Cash and cash equivalents - end of year	<u><u>38,372</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(125,661)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation expense	6,535
Commodities used	28,798
Loss on disposal of capital assets	2,844
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts Receivable	(243)
Inventories	920
Salaries and benefits payable	877
Unearned Revenue	<u>431</u>
Net cash (used) in operating activities	<u><u>\$ (85,499)</u></u>
Non-cash investing, capital and financing activities:	
Federal food commodities received	<u><u>\$ 28,798</u></u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Paullina, Primghar and Sutherland, Iowa, and the predominate agricultural territory in O'Brien, Cherokee, and Clay Counties in Iowa. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South O'Brien Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

In June, 2002, the District established the South O'Brien Community School District Foundation by appointing a board of trustees to incorporate a foundation under the Iowa Non-Profit Corporation Act, Iowa Code Chapter 504A. The focus of the Foundation is exclusively for charitable, scientific and educational purposes of the District. The financial activity of the Foundation is included in the financial statements of the South O'Brien Community School District as a blended component unit for the year ended June 30, 2008.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the O'Brien County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Project LOST Fund is used to account for the collection of a 1% school local sales and services tax to be expended for school infrastructure purposes.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the district.

C. Basis of Accounting/Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year-end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charged to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2007.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$500 for governmental capital assets and school nutrition capital assets.

Capital Assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Land Improvements	15-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end, excluding grant receivables.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amount budgeted in the other expenditures function.

NOTE 2 – CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 2 – CASH AND POOLED INVESTMENTS (CONTINUED)

management investment companies, certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had the following investments:

	Credit Risk	Fair Value
ISCAP – Guaranteed Interest Contract	Not Rated	\$ 347,111
U.S. Treasury Obligations	N/A	\$ 293,753

In addition, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,803,173 pursuant to Rule 29-7 under the Investment Company Act of 1940.

Interest rate risk and custodial credit: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

Credit Risk: The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

NOTE 3 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer From	Transfer To	Amount
Special Revenue:		
Physical Plant & Equipment Levy	Debt Service	\$ 214,188
Capital Project LOST	Debt Service	232,322
Total		<u>\$ 446,510</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NOTE 4 – IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP)

The District participates in the Iowa School Cash Anticipation (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	06/27/07	06/27/08	\$ -	\$ 886	\$ -	\$ -
2007-08B	01/23/08	01/23/09	347,111	5,204	346,000	5,637
			<u>\$ 347,111</u>	<u>\$ 6,090</u>	<u>\$ 346,000</u>	<u>\$ 5,637</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 4 – IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP) (CONTINUED)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%
2007-08B	3.750%	3.451%

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 51,351	\$ -	\$ -	\$ 51,351
Total capital assets not being depreciated	51,351	-	-	51,351
Capital assets being depreciated:				
Buildings	6,603,014	51,370	-	6,654,384
Improvements other than buildings	120,585	39,452	-	160,037
Furniture and equipment	2,659,086	237,268	107,963	2,788,391
Total capital assets being depreciated	9,382,685	328,090	107,963	9,602,812
Less: Accumulated Depreciation for:				
Buildings	2,670,542	132,219	-	2,802,761
Improvements other than buildings	120,585	986	-	121,571
Furniture and equipment	2,018,450	143,852	83,976	2,078,326
Total Accumulated Depreciation	4,809,577	277,057	83,976	5,002,658
Total capital assets being depreciated, net	4,573,108	51,033	23,987	4,600,154
Governmental activities capital assets, net	\$ 4,624,459	\$ 51,033	\$ 23,987	\$ 4,651,505
	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Business-type Activities:				
Furniture and equipment	\$ 179,155	\$ -	\$ 3,250	\$ 175,905
Less: Accumulated Depreciation	103,783	6,535	406	109,912
Business-type activities capital assets, net	\$ 75,372	\$ 6,535	\$ 2,844	\$ 65,993

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the functions as follows:

Governmental Activities:

Regular Instruction	\$ 151,122
Other Instruction	4,032
Instructional Staff Services	56,966
Administration Services	516
Operation and Maintenance	9,669
Transportation Services	54,752
	<u>277,057</u>

Total depreciation expense – governmental activities \$ 277,057

Business-type activities:

Food Service Operations	<u>\$ 6,535</u>
-------------------------	-----------------

Reconciliation of Invested in Capital Assets:

	Governmental Activities	Business- Type Activities
Land	\$ 51,351	\$ -
Capital Assets (net of accumulated depreciation)	4,600,154	65,993
Bond Issue Costs	6,109	-
Less: Revenue Bonds Payable	(1,225,000)	-
Capital Loan Notes Payable	(910,000)	-
	<u>\$ 2,522,614</u>	<u>\$ 65,993</u>
Invested in Capital Assets, Net of Related Debt		

NOTE 6 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
LOST Revenue Bonds	\$ 1,405,000	\$ -	\$ 180,000	\$ 1,225,000	\$ 185,000
Notes Payable	22,903	-	11,454	11,449	11,449
General Obligation Capital					
Loan Notes	1,075,000	-	165,000	910,000	170,000
Early Retirement	63,663	38,004	8,000	93,667	12,000
Compensated Absences	12,323	12,183	12,323	12,183	12,183
Total	<u>\$ 2,578,889</u>	<u>\$ 50,187</u>	<u>\$ 376,777</u>	<u>\$ 2,252,299</u>	<u>\$ 390,632</u>

General Obligation Capital Loan Notes

On September 9, 2004, the District issued \$1,000,000 general obligation capital loan notes with an interest rate of 1.650%-3.650% to provide funds for capital improvements. On April 1, 2005, the District issued \$495,000 general obligation capital loan notes with an interest rate of 3.100%-4.600% to provide funds for capital improvements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

The annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Year Ending June 30	\$495,000 Capital Loan Notes		\$1,000,000 Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 60,000	10,815	\$110,000	\$ 19,888	\$ 170,000	\$ 30,703
2010	60,000	8,955	115,000	16,643	175,000	25,598
2011	65,000	7,005	120,000	12,963	185,000	19,968
2012	65,000	4,795	120,000	8,822	185,000	13,617
2013	70,000	2,520	125,000	4,562	195,000	7,082
Total	\$ 380,000	\$ 34,090	\$ 590,000	\$ 62,878	\$ 910,000	\$ 96,968

Revenue Bonds

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

1. \$174,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
2. All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
3. Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
4. Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District was in compliance with all of the provisions during the year ended June 30, 2008.

Revenue bonds as of June 30, 2008 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
Governmental Activities	3.50%-4.050%	<u>\$ 1,225,000</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Principal	Interest
2009	\$ 185,000	\$ 46,473
2010	190,000	39,998
2011	200,000	32,872
2012	210,000	25,372
2013	215,000	17,498
2014	225,000	9,113
Total	<u>\$1,225,000</u>	<u>\$ 171,326</u>

Notes Payable

Detail of the District's June 30, 2008 Special Assessment debt with O'Brien County is as follows:

Year Ending June 30	Principal	Interest	Total
2009	\$ 11,449	\$ 721	\$ 12,170
Total	<u>\$ 11,449</u>	<u>\$ 721</u>	<u>\$ 12,170</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 55 and 64 and have completed at least 20 years of service in the District. Employees must complete an application at least one full year in advance, and it is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a maximum of one-half of one percent of the employee's current teaching salary as a base salary which is multiplied by the number of years of service the employee has rendered to the District. This total amount shall be in addition to the amount provided for salary in the contract for the final year of employment. Early retirement benefits paid during the year ended June 30, 2008 totaled \$14,325. The cost of early retirement payments liquidated within 60 days is recorded as a liability of the Special Revenue Management Levy Fund in the fund's financial statements.

The non-current portion of the early retirement to recorded in the government-wide financial statements.

NOTE 7 – PENSION AND RETIREMENT BENEFITS

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2008

NOTE 7 – PENSION AND RETIREMENT BENEFITS (CONTINUED)

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$221,363, \$205,969, and \$189,544 respectively, equal to the required contributions for each year.

NOTE 8 – RISK MANAGEMENT

South O'Brien Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 – AREA EDUCATION AGENCY

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$252,401 for the year ended June 30, 2008 and is recorded in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL, ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Governmental Funds	Proprietary Fund	Total	Final to Actual
	Original	Amended	Actual	Actual	Actual	Variance
REVENUE:						
Local Sources:						
Local Tax	\$ 2,919,521	\$ 2,919,521	\$ 3,313,037	\$ -	\$ 3,313,037	\$ 393,516
Tuition	225,000	225,000	134,946	-	134,946	(90,054)
Other	952,000	952,000	327,538	126,684	454,222	(497,778)
State Sources	3,336,550	3,336,550	3,231,147	3,488	3,234,635	(101,915)
Federal Sources	430,000	430,000	287,977	120,600	408,577	(21,423)
Total Revenue	7,863,071	7,863,071	7,294,645	250,772	7,545,417	(317,654)
EXPENDITURES:						
Current:						
Instruction	5,024,631	5,024,631	4,288,971	-	4,288,971	735,660
Support Services	2,910,400	2,910,400	2,024,585	-	2,024,585	885,815
Non-instructional Programs	268,000	268,000	-	251,270	251,270	16,730
Other Expenditures	949,079	949,079	1,038,052	-	1,038,052	(88,973)
Total Expenditures	9,152,110	9,152,110	7,351,608	251,270	7,602,878	1,549,232
Excess (Deficiency) of Revenues Over Expenditures	(1,289,039)	(1,289,039)	(56,963)	(498)	(57,461)	1,231,578
Other Financing Sources (Uses):						
Transfers In	446,510	446,510	446,510	-	446,510	-
Transfers Out	(446,510)	(446,510)	(446,510)	-	(446,510)	-
Sale of Capital Assets	2,000	2,000	-	-	-	(2,000)
Total Other Financing Sources (Uses)	2,000	2,000	-	-	-	(2,000)
Net Change in Fund Balances	(1,287,039)	(1,287,039)	(56,963)	(498)	(57,461)	1,229,578
Fund Balances - Beginning of Year	2,218,626	2,218,626	2,118,624	100,002	2,218,626	-
Fund Balances - End of Year	\$ 931,587	\$ 931,587	\$ 2,061,661	\$ 99,504	\$ 2,161,165	\$ 1,229,578

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional area level, not at the fund. This level of control is at a level higher than the individual fund. It is necessary, therefore, to aggregate the expenditures of governmental fund types with expenses of proprietary fund types on a functional area basis and to compare such functional area totals to functional area budgeted totals in order to demonstrate legal compliance with budget. The Code of Iowa also provides that District disbursements in the General Fund may not exceed the amount authorized by the school finance formula. During the fiscal year 2008, the District had no budget amendments.

During the year ended June 30, 2008, expenditures in the Other Expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1

REVENUES:

Local Sources:

Local Tax:

Property Tax	\$ 2,188,326
Mobile Home Tax	82
Utility Tax Replacement Excise Tax	71,654
Surtax	144,917
	<u>2,404,979</u>

Other Local Sources:

Interest on Investments	61,730
Tuition from Individuals	15,084
Tuition from Other Districts	119,862
Rent	6,685
Miscellaneous	16,524
	<u>219,885</u>
	<u>2,624,864</u>

State Sources:

State Foundation Aid	2,524,661
Instructional Support State Aid	13,383
Market Factor	4,879
Educational Excellence Program:	
Phase I	55,338
Phase II	56,840
Non-Public Transportation Aid	53,245
Non-Public Textbook and Technology Aid	1,368
Teacher Compensation	191,448
Teacher Quality Professional Grants	27,958
Mentoring and Induction State Grants	1,500
Vocational Education Aid	5,725
Revenue in lieu of taxes - military credit	1,710
AEA Flow-Through	252,401
Iowa Early Intervention Block Grant	32,681
Beginning Teacher Mentoring	7,800
	<u>3,230,937</u>

Federal Sources:

Title I Grants to Local Educational Agencies	87,080
Safe and Drug-Free Schools and Communities-States Grants	2,809
State Grants for Innovative Programs	878
Vocational Education - Basic Grants to States	7,662
Special Education - Grants to States	42,419
Improving Teacher Quality State Grants	41,242
Grants for Assessments and Related Activities	4,578
Medical Assistance Program	101,309
	<u>287,977</u>

Total Revenue

\$ 6,143,778

Continued

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1 (Continued)

EXPENDITURES:

Instruction:

Regular Instruction:

Salaries	\$ 1,850,223
Benefits	468,852
Services	258,624
Supplies	112,193
Property	8,656
Other	1,898
	<u>2,700,446</u>

Special Education Instruction:

Salaries	660,101
Benefits	206,246
Services	132,858
Supplies	9,456
Property	28,189
Other	250
	<u>1,037,100</u>

Vocational Instruction:

Salaries	133,991
Benefits	33,911
Services	1,303
Supplies	9,604
Property	3,492
	<u>182,301</u>

Co-curricular Instruction:

Salaries	134,964
Benefits	24,631
Services	4,682
Supplies	2,446
Property	570
	<u>167,293</u>

Nonpublic Instruction:

Supplies	1,231
	<u>1,231</u>

Total Instruction

\$ 4,088,371

Continued

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1 (Continued)

Support Services:

Student Services:

Guidance Services:

Salaries	\$ 84,026
Benefits	22,603
Services	4,652
Supplies	1,512
	<u>112,793</u>

Health Services:

Salaries	23,498
Benefits	14,144
Services	2,353
Supplies	4,099
	<u>44,094</u>

Total Student Services

156,887

Support Services:

Instructional Staff Services:

Improvement of Instruction Services:

Services	6,569
Supplies	797
	<u>7,366</u>

Educational Media Services:

Salaries	63,857
Benefits	19,909
Services	620
Supplies	13,059
Property	25
	<u>97,470</u>

Other Instructional Staff Support Services:

Salaries	25,930
Benefits	6,424
Services	27,570
Supplies	25,428
Property	55,634
	<u>140,986</u>

Total Instructional Staff Services

\$ 245,822

Continued

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1 (Continued)

Support Services (Continued):

Administration Services:

Executive Administration:

Salaries	\$ 157,771
Benefits	43,065
Services	14,713
Supplies	3,468
Property	949
	<u>219,966</u>

School Administration:

Salaries	193,893
Benefits	73,784
Services	6,462
Supplies	1,235
Property	72
	<u>275,446</u>

Business Administration:

Salaries	40,338
Benefits	16,979
Services	8,832
Supplies	12,992
Iowa School Cash Anticipation Program:	
Interest	7,965
Other	328
	<u>87,434</u>

Board of Education:

Benefits	3,010
Services	19,070
Supplies	1,059
Property	
Other	10,872
	<u>34,011</u>

Total Administration Services:

\$ 616,857

Continued

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1 (Continued)

Support Services (Continued):

Plant Operation and Maintenance:

Salaries	\$ 147,715
Benefits	60,550
Services	36,114
Supplies	159,761
Property	4,429
	<u>408,569</u>

Support Services:

Student Transportation:

Salaries	151,176
Benefits	40,980
Services	27,070
Supplies	110,993
Property	18,633
	<u>348,852</u>

Total Support Services

1,776,987

Other Expenditures:

AEA Flow-Through	<u>252,401</u>
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Total Expenditures	<u>6,117,759</u>
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Excess of Revenues Over Expenditures	<u>26,019</u>
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Fund Balance - Beginning of Year	<u>1,255,600</u>
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Fund Balance - End of Year	<u><u>\$ 1,281,619</u></u>
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**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS
JUNE 30, 2008**

	Special Revenue Funds			
	Management Levy	PPEL Fund	Student Activity	Ray Ginger Scholarship
ASSETS				
Cash and Pooled Investments	\$ 74,882	\$ 137,653	\$ 55,070	\$ 1,983
Receivables:				
Property Tax	2,757	5,187	-	-
Succeeding Year Property Tax	150,000	271,303	-	-
Accounts	-	-	302	-
Total Assets	227,639	414,143	55,372	1,983
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	924	11,683	3,516	-
Early Retirement Payable	2,002	-	-	-
Unearned Revenue	82	145	-	-
Deferred Revenue - Succeeding Year				
Property Taxes	150,000	271,303	-	-
Total Liabilities	153,008	283,131	3,516	-
Fund Balances:				
Reserved for:				
Endowments	-	-	-	1,983
Unreserved for:				
Special Revenue Fund	74,631	131,012	51,856	-
Total Fund Balances	74,631	131,012	51,856	1,983
Total Liabilities and Equity	\$ 227,639	\$ 414,143	\$ 55,372	\$ 1,983

Schedule 2

Special Revenue Fund		Permanent Fund		Debt Service		Total
Foundation		Dell Scholarship				
\$ 9,422		\$ 2,545		\$ -		\$ 281,555
-		-		-		7,944
-		-		-		421,303
-		-		-		302
9,422		2,545		-		711,104
-		-		-		16,123
-		-		-		2,002
-		-		-		227
-		-		-		421,303
-		-		-		439,655
9,422		2,545		-		13,950
-		-		-		257,499
9,422		2,545		-		271,449
\$ 9,422		\$ 2,545		\$ -		\$ 711,104

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL NONMAJOR FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Special Revenue Fund			
	Management Levy	PPEL Fund	Student Activity	Ray Ginger Scholarship
REVENUE:				
Local Sources:				
Local Tax	\$ 149,622	\$ 380,733	\$ -	\$ -
State Sources	487	-		
Other	13,041	7,221	194,601	15
Total Revenue	163,150	387,954	194,601	15
EXPENDITURES:				
Current:				
Instruction:				
Regular Instruction	15,300	-	-	200
Other Instruction	-	-	184,100	-
Support Services:				
Instructional Staff Services	-	-	-	-
Administration Services	67,801	-	-	-
Operation and Maintenance	23,635	132,365	-	-
Transportation Services	12,034	-	-	-
Other Expenditures:				
Facilities Acquisition and Construction	-	126,375	-	-
Long-term Debt:				
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Total Expenditures	118,770	258,740	184,100	200
Excess (Deficiency) of Revenues Over Expenditures	44,380	129,214	10,501	(185)
Other Financing Sources (Uses):				
Transfers Out	-	(214,188)	-	-
Total Other Financing Sources (Uses)	-	(214,188)	-	-
Net Change in Fund Balances	44,380	(84,974)	10,501	(185)
Fund Balances - Beginning of Year	30,251	215,986	41,355	2,168
Fund Balances - End of Year	\$ 74,631	\$ 131,012	\$ 51,856	\$ 1,983

Schedule 3

Special Revenue Fund	Permanent Fund		
Foundation	Dell Scholarship	Debt Service	Total
\$ -	\$ -	\$ -	\$ 530,355
			487
11,413	123	-	226,414
11,413	123	-	757,256
-	-	-	15,500
1,000	-	-	185,100
7,190	-	-	7,190
413	-	-	68,214
2,628	-	-	158,628
-	-	-	12,034
-	-	-	126,375
-	-	356,454	356,454
-	-	90,056	90,056
11,231	-	446,510	1,019,551
182	123	(446,510)	(262,295)
-	-	-	(214,188)
-	-	446,510	232,322
182	123	-	(29,973)
9,240	2,422	-	301,422
\$ 9,422	\$ 2,545	\$ -	\$ 271,449

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2008

					Schedule 4
	Balance June 30, 2007	Revenues	Expenditures	Intrafund Transfers	Balance June 30, 2008
General Athletics	\$(10,885)	\$ 55,355	\$ 43,661	\$ (809)	\$ -
Weight Room Club	60	-	-	-	60
HS Football Club	127	-	46	-	81
HS General Athletics Resale	-	5,413	4,529	440	1,324
HS Student Council	2,219	4,673	3,738	(1,104)	2,050
FFA	3,753	34,288	31,397	(153)	6,491
Spanish Club	1,213	-	1,163	-	50
HS Cheerleaders	2,801	15,371	18,306	134	-
HS Science Club	215	249	-	-	464
National Honor Society	359	424	370	-	413
Model UN Club	829	924	1,441	-	312
HS Art Club	288	-	-	-	288
Dinner Theater Club	4,234	3,943	3,374	(906)	3,897
HS Instrumental Music Resale	212	2,604	3,056	240	-
HS Vocal Music Resale	524	24	277	-	271
Yearbook Club	6,608	12,022	12,926	-	5,704
HS Speech Club	215	-	325	110	-
JH Student Council	1,188	-	-	(687)	501
HS Activity	3,320	5,672	5,270	-	3,722
EI Student Council	7,490	25,690	28,075	-	5,105
MS Marketing	2,230	765	993	-	2,002
JH Athletics	-	2,132	6,379	4,247	-
Kindergarten Activity	183	-	-	-	183
General Activity Account	961	908	-	(1,869)	-
Clothes For Kids	376	258	514	-	120
Class of 2006	152	-	-	(152)	-
Class of 2007	2,075	-	739	(1,336)	-
Class of 2008	1,401	553	1,120	-	834
Class of 2009	2,027	3,484	4,610	-	901
Class of 2010	632	-	30	1,453	2,055
Class of 2011	-	1,453	-	(863)	590
District Football	822	-	822	-	-
Intramural Basketball	160	-	-	-	160
Elementary Playground	5,566	18,396	10,939	1,255	14,278
Totals - All Activity Funds	\$ 41,355	\$ 194,601	\$ 184,100	\$ -	\$ 51,856

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE YEARS ENDED JUNE 30, 2008, 2007, 2006, 2005**

Schedule 5

	Modified Accrual Basis of Accounting			
	2008	2007	2006	2005
Revenues:				
Local Sources:				
Local Tax	\$ 3,313,037	\$ 3,314,347	\$ 3,431,676	\$ 3,638,870
Tuition	134,946	136,085	121,513	104,325
Other	327,538	364,765	351,465	351,552
Intermediate Sources		-	-	56,155
State Sources	3,231,147	3,010,114	2,958,051	2,669,707
Federal Sources	287,977	447,641	313,666	324,853
Total	<u>7,294,645</u>	<u>7,272,952</u>	<u>7,176,371</u>	<u>7,145,462</u>
Expenditures:				
Instruction:				
Regular	2,715,746	2,588,022	2,388,993	2,304,201
Special	1,037,100	1,087,443	932,684	1,017,285
Other	536,125	494,231	720,231	546,008
Support Services:				
Student	156,887	158,246	262,464	274,449
Instructional Staff	253,012	239,722	312,508	388,374
Administration	685,071	679,553	672,739	583,215
Operation and maintenance	503,439	543,007	586,845	480,195
Transportation	426,176	427,034	349,115	288,567
Non-instructional programs		-	-	
Other Expenditures:				
Facilities Acquisition	339,141	163,257	2,556,606	914,354
Long-term debt:				
Principal	356,454	346,454	331,454	111,454
Interest and other charges	90,056	101,181	173,909	51,599
AEA Flowthrough	252,401	244,936	239,076	235,162
Total	<u>\$ 7,351,608</u>	<u>\$ 7,073,086</u>	<u>\$ 9,526,624</u>	<u>\$ 7,194,863</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2008

Schedule 6

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

There were no prior year audit findings.

SIGNIFICANT DEFICIENCIES:

II-A-08 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties, which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetuate and conceal errors or fraud. In performing our audit, we noted that one person has primary responsibility for many accounting and financial duties of the District.

Recommendation – The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Education and Superintendent remain actively involved in the financial affairs of the District to provide oversight and review functions. In addition, the District should periodically review the operating procedures and make changes as necessary to obtain the maximum internal control under the circumstances.

Response – District administration understands the nature of the weakness and the necessity for the Board and Superintendent to provide oversight and review functions. We will continue to review procedures of the District and make changes as deemed necessary and practical.

Conclusion – Response accepted.

II-B-08 Financial Reporting

Observation – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2008

Schedule 6 (Continued)

Part II: Findings Related to the Financial Statements (Continued):

Recommendation – The District should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-08 Certified Budget – Disbursements for the year ended June 30, 2008 exceeded the amount budgeted in the other expenditures function.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will continue to monitor the expenditures as they relate to the certified budget.

Conclusion – Response accepted.

III-B-08 Questionable Disbursements – No disbursements were noted that they may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-08 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

III-D-08 Business Transactions – Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Paul Miller, Employee's Spouse Owner of Whiskey Creek Log Homes	Contractor	\$ 10,266
John Muller, Employee's Spouse Owner of Muller Furniture	Contractor	\$ 16,825

These transactions may represent a conflict of interest and the District should contact legal council for determination.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2008

Schedule 6 (Continued)

Part III: Other Findings Related to Statutory Reporting (Continued):

- | | |
|----------|--|
| III-E-08 | <u>Bond Coverage</u> – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations. |
| III-F-08 | <u>Board Minutes</u> – No transactions requiring Board approval that had not been approved by the Board were noted. |
| III-G-08 | <u>Certified Enrollment</u> – No variances in the basic enrollment data certified to the Department of Education were noted. |
| III-H-08 | <u>Deposits and Investments</u> – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted. |
| III-I-08 | <u>Certified Annual Report</u> – The Certified Annual Report was filed timely with the Department of Education. |



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of the
South O'Brien Community School District

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated January 12, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the South O'Brien Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the South O'Brien School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South O'Brien School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South O'Brien School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the South O'Brien School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the South O'Brien School District's financial statements that is more than inconsequential will not be prevented or detected by the South O'Brien School District's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items II-A-08 and II-B-08 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the South O'Brien School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

The South O'Brien School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit the South O'Brien School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the board of education, management, employees and citizens of South O'Brien Community School District and other parties to whom the South O'Brien Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South O'Brien Community School District during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
January 12, 2009